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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20054

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MAY 15 1998

In the matter Of)
Federal-State Joint Board on) CC Docket No. 96-45
Universal Service) CC Docket No. 97-160
DA 98-715

Federal Communications Commission
Office of Secretary

COMMENTS OF ITCs, INC. IN RESPONSE
TO THE COMMON CARRIER BUREAU NOTICE SEEKING COMMENT ON
PROPOSALS TO REVISE THE METHODOLOGY FOR DETERMINING
UNIVERSAL SERVICE SUPPORT

ITCs, Inc., an economic cost consultant to independent telephone companies serving America's rural areas, on behalf of Chariton Valley Telephone Company, Columine Telephone Company, Cunningham Telephone Company, ETEX Telephone Cooperative, Mogan Dial, Inc.- Kansas, Mogan Dial, Inc. - Missouri, Moultrie Independent Telephone Company, Inc., Plains Telephone Cooperative Association, Inc., Steelville Telephone Company, South Central Telecommunications of Kiowa, South Central Telephone Association - Kansas, South Central Telephone Association - Oklahoma, Tri Country Telephone Association, Inc., TCT West, Inc., and Wiggins Telephone Association, through counsel, respectfully respond to the Commission's invitation for comments in the above captioned matter released April 15, 1998.

Introduction

1. ITCs serves small rural local exchange carriers (LECs) located in the mid-west and rocky mountain regions of the United States. It cannot be over emphasized that in these regions the barriers of distance and density remain critical impediments to the provision of universal service. It is here that, in a recently completed study, the cost to serve one group of customers exceeded \$1700.00 per month. It is here that a public policy of universal service is taken very seriously for,

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absent the support mechanisms that have been inherent in the telecommunications industry for over 100 years, the majority of rural customers would not be participants in the success that places the United States as the world's economic leader. Their standard of living and quality of education would be comparable to an emerging nation.

2. The mechanisms that allowed such success are time tested, of sound economic foundation and funded from within the industry. Accordingly, the Commission's focus should not be one of dramatic change but rather the accomplishment of conformance and accommodation with emerging competition in other telecommunication marketplaces. Beyond that, there is significant risk in jeopardizing an extremely significant ingredient and key asset in this country's success as a nation.

Forward Looking Costs

3. ITCs has long been of the opinion that the use of "proxies" actual costs in the management and regulation of the telecommunications of the industry makes little sense. Investors are not paid dividends, salaries are not paid, taxes are not levied, supplies are not purchased and customers do pay bills on the basis of forward looking costs--costs that do not reflect the real world. Likewise, the Commission should not design a cost support system based on investments that may not have been made or local service rates that may not remain affordable. It simply makes no sense except in those cases where a second motivation exists. ITCs recently completed a detailed forward-looking cost study which, if used as intended, would have resulted in the public interest being served. In fact, nearly every study or iteration of a model has resulted in a situation where either the provider or the consumer would have been severely prejudiced. Proxies and models don't work for rural America!

The 25/75 Decision

4. ITCs vigorously commends the Commission for its reconsideration of this decision.

For many decades a major mechanism of support involved the more profitable high density areas of the nation flowing support to the high cost, low density areas. To arbitrarily break this vital concept jeopardizes the provision of universal service by forcing low density areas to reallocate scarce resources to replace this vital element. These are the very areas that require support, so clearly they are not in a position to provide it. This decision is a key example of creating a major change that will severely impact the results of so many years of time tested processes.

Federal High Cost Support Use

5. Universal service support mechanisms have always had but one objective over the past century, that is, to ensure that, through affordable rates, local telecommunications services can be available to all Americans. Why then, given that interstate access charges are supposed to be cost based, should they be further supported. That each service not be priced lower than cost is a fundamental axiom of pricing in a competitive world yet support of access is proposed. Further, it is the long distance element of the industry (of which access is a part) that remains the low cost, high profit element of the business. This is the very reason it has been the primary source of support over these many years. Yet now, it is proposed to leave the very target of support to its own devices for support, while we direct federal support toward a single component of the most profitable element in the industry. Again, this is a key decision creating a major change that will severely impact a proven and time tested process.

Revenue Benchmarks

6. ITCs again commends the Commission for re-examining the decision to use a revenue benchmark as an indicator of cost. Simply stated, it makes no sense to proceed down that road in an environment where revenues and costs are becoming de-linked to an ever increasing degree. The delinkage results from departures from rate-of-return regulation and the ever increasing presence of competition. ITCs strongly supports a cost based benchmark. First, it is consistent with the focus of support, i.e., high costs. Second, the success of the present rural high cost support process provides ample reason for continued use of the concept.

Funding Sources

7. ITCs remains of the opinion that funding must be accomplished on a non-discriminatory basis with assessments directed to all telecommunications providers who benefit from a policy of universal service. Retail revenues appear to be the most equitable basis for the assessment. Because ITCs believes in a single federal funding approach, the assessment should be based on both interstate and intrastate revenues. In terms of a pass through to customers, ITCs does not support such an approach because, among other things, this will only serve to incite a population that may well not understand the history and necessity of the process. Such publicity will also provide political grist in an area where such is not necessary or perhaps welcome.

Implementation

8. The revised program is intended to facilitate emerging competition while providing for a highly appropriate element of national communications policy. Accordingly, it should be implemented as scheduled and, under no circumstances, used as a lever to advance the interests of a single segment of the industry.

The ITCs Plan

9. In proceedings associated with CC Docket No. 96-45, ITCs has previously submitted its proposal which in summary provides a simple, equitable and consistent approach to the process. In summary, the plan called for implementation of “comparable” rates as required by the Telecommunications Act of 1996. Further, all costs, adjusted for comparative usage, above the level required to provide the services in urban areas should be assigned to a high cost funding mechanism for local loop, switching and transport, each calculated separately but netted for the determination of payment amount. An approach of this nature will allow for expanded calling areas, stimulate rural usage (which is only one-half of urban usage) thereby stimulating revenues and lowering a dependence on support as usage increases.

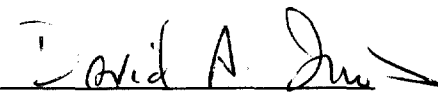
Summary

10. ITCs submits that much of the present system is time tested and works well and, where appropriate should be retained, in principle, concept, and practice. Further, the use of forward-looking costs is not well conceived and should be reconsidered along with the 25/75 decision which should be replaced with a single federal fund which assesses both interstate and intrastate retail revenues. Revenue benchmarks should not be considered in deference to a cost

related threshold. Finally, ITCs has submitted a plan designed for this segment of the industry which solves all of the problems associated with the process and which will allow for competition preparation through stimulated usage and a decreasing dependence on support funding.

Respectfully submitted,

ITCs, Inc.

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May 15, 1998

Certificate of Service

I, Tracy Lynn Trynock, do hereby certify that on this 15th day of May, 1998, I caused a copy of the foregoing "Comments of ITCs, Inc. In Response To The Common Carrier Bureau Notice Seeking Comment On Proposals To Revise The Methodology For Determining Universal Service Support", to be sent by first-class United States mail, postage prepaid, or by hand delivery to the following persons:

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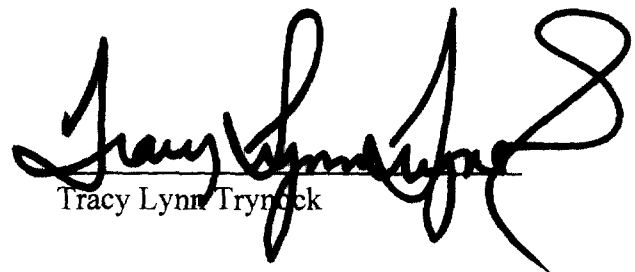
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